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INFO OCT-01 EB-07 TRSE-00 ISO-00 /020 W
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PASS TREASURY FOR WITHERELL: CAIRO FOR ASSISTANT
SECRETARY PARSKY

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NOVEMBER 19 AND REPEATED FOR YOUR INFO:

UE.O.11652: N/A

TAGS: EFIN, ECON, OECD

SUBJECT: NOVEMBER 13-14 MEETING OF ECONOMIC POLICY
COMMITTEE TEMPORARY WORKING PARTY (TWP)

REFS: (A) CPE/TWP(75)13

(B) CPE/TWP(75)16

(C) CPE/T//P(75)12

(D) CPE/TWP(75)10

(E) CPE/TWP(75)14, 15

(F) OECD PARIS 29331

(G) OECD PARIS 27677

(H) OECD PARIS 25174

1. SUMMARY AND INTRODUCTION: AT ITS NOVEMBER 13-14 MEETING, TWP DISCUSSED FOLLOWING REVISED DRAFT PAPERS: SOME ASPECTS OF THE IMPACT OF HIGHER OIL PRICES (REF A); TERMS OF TRADE BETWEEN OECD AND OPEC COUNTRIES (REF B); INDEXATION OF OIL PRICES (REF C); INVESTMENT OF SURPLUSES (REF D), AND BALANCE OF PAYMENTS AND FINANCING POSITION OF SMALLER OECD COUNTRIES (REF E). RE REF A, REACTION TO U.S. PROPOSAL THAT TWP DO FURTHER ANALYTICAL AND QUANTITATIVE WORK ON IMPACT OF HIGHER OIL PRICES STRONGLY NEGATIVE (CANADA WAS SOLE COUNTRY SUPPORTING U.S.); PROPOSAL WAS SOUNDLY REJECTED. INDEED, SEVERAL COUNTRIES QUESTIONED BOTH RELEVANCE AND UTILITY OF SUCH ANALYSIS IN DIALOGUE CONTEXT. WORKING PARTY DID, HOWEVER, AGREE TO ASK EPC'S WP-2 TO ISOLATE EFFECTS OF OIL PRICE INCREASE IN ANALYZING ECONOMIC GROWTH PROSPECTS. CONCERNING REF C, TWP AGREED TO U.S. PROPOSAL TO CONVENE EXPERTS GROUP TO CONSIDER TECHNICAL VALIDITY OF EXPORT PRICE INDICES (U.S. METHOD) AS OPPOSED TO UNIT VALUE INDICES (SECRETARIAT TECHNIQUE). REFS A, C AND D NOW CONSIDERED "PROVISIONALLY FINALIZED," BUT SUBJECT TO REVIEW BEFORE WORK BEGINS IN DIALOGUE COMMISSIONS. FURTHERMORE, REF D IN ANY CASE DESIGNED IN PRESENT FORM ONLY FOR INTERNAL USE. (REF C ASSUMED TO BE INTENDED FOR TABLING.) SECRETARIAT WILL GIVE ORAL REPORT AT NOVEMBER 18-19 EPC ON TWP COMMENTS ON REF B, WHICH HAS BEEN CIRCULATED TO EPC. LIMITED OFFICIAL USE

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TWP CHAIRMAN (VAN YPERSELE) NOTED UNDERSTANDING IN XCSS THAT TWP WOULD BACKSTOP FOURTH (FINANCIAL) COMMISSION AND THAT EXISTING TWP MANDATE WOULD BE APPROPRIATELY INTERPRETED FOR THIS PURPOSE, RATHER THAN FORMALLY REWRITTEN. AS SPECIFIC NEW ITEM FOR WORK PROGRAM, CHAIRMAN SUGGESTED TWP STUDY BALANCE-OF-PAYMENTS FINANCING PROBLEMS OF NON-OIL LDC'S. TWP PLANNING INFORMAL LUNCHEON MEETING ON DECEMBER 18 TO CONSIDER ITS FOURTH

COMMISSION ROLE IN LIGHT OF CIEC MINISTERIAL RESULTS.

NEXT FULL MEETING TENTATIVELY SCHEDULED FOR JANUARY 20-

21. VAN YPERSELE RAISED FOR LATER CONSIDERATION QUESTION OF IMF AND IBRD OBSERVERS AT TWP MEETINGS CONCERNED WITH LDC FINANCES. TWP HELD A REVIEW OF THE STATUS OF OECD SUPPORT FUND RATIFICATION (SEE SEPTTEL). END SUMMARY.

2. IMPACT OF HIGHER OIL PRICES (REF A): U.S. DEL EMPHASIZED THAT LONGER-TERM IMPACT ON GROWTH OF HIGHER OIL PRICES IN REFDOC A HAD BEEN HYPOTHESIZED BUT NOT ANALYZED IN DEPTH. THUS, U.S. URGED THAT TWP UNDERTAKE SUCH AN ANALYSIS FOR FOLLOWING REASONS: (A) IN DIALOGUE (FOR WHICH TWP WILL HAVE SOME BACKSTOPPING RESPONSIBILITY), OIL CONSUMING COUNTRIES MUST BE PREPARED TO DEMONSTRATE THE ADVERSE IMPACT OF HIGHER OIL PRICES ON THE INDUSTRIAL COUNTRIES, TOGETHER WITH THE FEEDBACK EFFECTS ON THE PRODUCERS THEMSELVES; (B) SUCH ANALYSIS WOULD ALSO PROVIDE IMPORTANT INPUT INTO OECD COUNTRIES' OWN ECONOMIC POLICY FORMULATION.

3. COUNTRY AND SECRETARIAT REACTION (WITH EXCEPTION OF CANADA), WAS STRONGLY NEGATIVE. ITALIANS (SUPPORTED AT OUTSET BY DANES, SWISS, FRG, IRELAND, FRANCE, BELGIUM, NETHERLANDS, NORWAY, AUSTRIA) STATED THAT DIFFICULTY OF QUANTIFICATION WOULD NOT REMOVE RELATIVELY SUBJECTIVE NATURE OF CONCLUSIONS, AND THAT PRODUCER SKEPTICISM OF OECD ANALYSIS WOULD RENDER IT IRRELEVANT IN DIALOGUE CONTEXT, AND THUS QUESTIONED UTILITY OF DOING ANY FURTHER

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ANALYSIS. U.K. ADDED ITS AGREEMENT WITH THIS VIEW AFTER
SEEING WIDE-SPREAD OPPOSITION TO U.S. PROPOSAL.

4. SECRETARIAT (MARRIS) ALSO VOICED STRONG SKEPTICISM
ABOUT PRACTICAL RESULTS OF SUCH AN ANALYSIS AND ITS
RELEVANCE TO DIALOGUE. IN RATHER STRAINED INTERPRETA-
TION OF OCTOBER 16-17 DISCUSSIONS IN EPC'S WP-2 SEE REF
G)' MARRIS REPORTED THAT WP-2 HAD REINFORCED CONCLUSIONS
OF ITS REPORT TO EPC EARLIER THIS YEAR THAT LONG-TERM
IMPACT OF HIGHER OIL PRICES WAS PROBABLY MINIMAL AND
THAT, IN ANY CASE, INFLUENCE OF ENERGY COST WAS DIFFI-
CULT TO SEPARATE OUT FROM OTHER FACTORS REDUCING GROWTH
RATE AND/OR POTENTIAL OUTPUT. MARRIS NOTED WP-2 ENGAGED
IN STUDY THAT WOULD EXAMINE OECB GROWTH PROSPECTS
THROUGH 1985, AND ASSERTED THAT IT WOULD BE BOTH
UNNECESSARY AND INAPPROPRIATE FOR TWP TO EXAMINE LONGER-
TERM IMPACT OF HIGHER OIL PRICES.

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5. U.S. ARGUED THAT W/-2 WAS MAKING NO ATTEMPT TO
ISOLATE ENERGY PRICE EFFECTS ON GROWTH, AND TWP EVENTU-
ALLY AGREED TO REQUEST THAT IN ANALYZING GROWTH PROS-
PECTS WP-2 SHOULD SEPARATE OUT HIGHER ENERGY PRICE
EFFECTS AND OF INCREASED UNCERTAINTY OF SUPPLY ON LEVEL
AND GROWTH OF POTENTIAL OUTPUT, STOCK OF USABLE CAPITAL,
AND INVESTMENT IN ENERGY PRODUCTION FACILITIES. COUNTRY
INPUTS SHOULD REFLECT THIS ADDITION TO WP-2 STUDY
EMPHASIS. (MARRIS PRIVATELY INFORMED WIDMAN THAT U.S.
SHOULD NOT EXPECT WP-2 TO TAKE T//WP REQUEST SERIOUSLY
UNLESS ITS DELEGATES TO WP-2 INSISTED. NEITHER SECRE-
TARIAT NOR EUROPEANS SYMPATHETIC TO U.S. REQUEST.)

6. GIVEN LACK OF SUPPORT EITHER FOR ITS SUBSTANTIVE
VIEW OR FOR FURTHER STUDY, U.S. RELUCTANTLY AGREED TO
"PROVISIONAL FINALIZATION" OF REF A AFTER EXTENSIVE
PARA-BY-PARA REVIEW AND ASSURANCE PAPER WOULD NOT IMPLY

THAT LONG-TERM GROWTH EFFECTS OF HIGHER ENERGY PRICES WERE UNIMPORTANT. U.S. REDRAFT OF REF A WHICH USED AS BASIS OF DISCUSSION WAS "SOFTENED" AND COMMENTARY SECTION OF SECRETARIAT VERSION RETAINED. FIGURES INDICATING ROUGH MAGNITUDE OF IMPACT WILL NOT BE DESCRIBED AS "SECRETARIAT ESTIMATE" (AS IN U.S. DRAFT), BUT WILL BE DESCRIBED AS "PRELIMINARY."

7. TERMS OF TRADE BETWEEN OECD AND OPEC (REF B): U.S. COMMENTED THAT UNIT VALUE INDICES (USED IN REF B) OVER-STATE PRICE INCREASES OF MANUFACTURES AND THUS ERRONEOUSLY LEND WEIGHT TO OPEC ARGUMENTS THAT THEIR TERMS OF TRADE HAVE DETERIORATED. FRG (SUPPORTED BY ITALY AND MARRIS) CONTENDED THAT UNIT VALUE INDICES DO REFLECT CONTRACTUAL EXPORT PRICE CHANGES OVER TIME, ALBEIT WITH A LAG. U.S. ADDED THAT USE OF UNIT VALUE INDICES FOR 1974 WOULD TEND TO PICK UP COMMODITY PRICE INCREASES OF 1973 AND WOULD THUS DO DISSERVICE TO OECD CASE VIS-A-VIS OPEC, AND THAT AT ANY RATE INDICES WEIGHTED BY APPROPRIATE COMMODITY COMPOSITION SHOW SIGNIFICANT DIFFERENCES FROM STANDARD UNIT VALUE INDICES. (SECRETARIAT IS IN FACT REWEIGHING ITS OWN INDICES TO REFLECT OECD EXPORTS TO OPEC.)

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8. TWP AGREED (PER U.S. PROPOSAL) THAT QUESTION SHOULD BE EVALUATED AT TECHNICAL LEVEL AND THAT GROUP OF EXPERTS SHOULD BE CONVENED FOR THIS PURPOSE. SECRETARIAT WILL ISSUE LETTER TO DELEGATIONS SUGGESTING THAT SUCH A GROUP BE CONVENED AND OUTLINING TERMS OF REFERENCE. SECRETARIAT REQUESTED TECHNICAL PAPER FROM U.S., ESPECIALLY AS REGARDS U.S. METHODOLOGY, TO ASSIST IT IN PREPARING MEETING. IN GENERAL, EXPERTS GROUP WILL REVIEW U.S., SECRETARIAT, AND U.K. PAPERS ON TERMS OF TRADE AND WILL CONCENTRATE ON OECD EXPORTS TO OPEC IN CALCULATING RELATIVE PRICES. (SECRETARIAT INDICATED WILL IN MEANTIME REISSUE REF B, BUT INDICATED THAT TECHNICAL ASPECTS WILL BE STUDIED BY EXPERTS GROUP.)

9. INDEXATION OF OIL PRICES (REF C): TWP AGAIN CONCLUDED THAT FROM OECD STANDPOINT THERE IS NO ECONOMIC CASE FOR INDEXATION OF OIL PRICES; AND THAT ADVERSE ECONOMIC EFFECTS WOULD BE MAGNIFIED IF BASE WERE CURRENT HIGH PRICES. WORKING PARTY ALSO AGAIN NOTED THAT IEA WAS PROPER FORUM FOR ANALYZING EQUILIBRIUM OIL PRICE LEVEL, BUT TO MAINTAIN SYMMETRY REF C SHOULD POINT OUT ADVERSE ECONOMIC EFFECTS OF OIL PRICES BEING SET TOO LOW AS WELL AS TOO HIGH. CONSENSUS WAS THAT REF C SHOULD CONTINUE TO TREAT INDEXATION IN CONNECTION WITH OTHER COMMODI-

TIES, SINCE DIALOGUE TERMS OF REFERENCE GO BEYOND

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OIL. HOWEVER, ANTI-INDEXATION ARGUMENTS EMPHASIZING DANGER OF SPILLOVER INTO OTHER COMMODITIES OF OIL-PRICE INDEXATION WILL BE DROPPED (SINCE THIS WOULD FALL ON DEAF EARS IN DIALOGUE) IN FAVOR OF ARGUMENTS STRESSING INTENSIFICATION OF ADVERSE ECONOMIC IMPACT WHICH WOULD RESULT FROM SUCH A SPILLOVER. EEC REP FELT THAT EXAMINATION OF ANOMALOUS INCOME REDISTRIBUTION EFFECTS OF GENERALIZED COMMODITY INDEXATION SHOULD GO FURTHER, AND WILL SUPPLY DRAFT LANGUAGE TO THIS EFFECT. SEVERAL DELS ARGUED FOR DELETION OF ALL REFERENCE TO POSSIBLE ACCEPTANCE OF INDEXATION WITH LOWER PRICE BASE ON GROUNDS INCLUSION WEAKENED USE AGAINST INDEXATION AND OPEC WILLINGNESS TO LOWER PRICE SUFFICIENTLY TO MAKE

INDEXING ATTRACTIVE WAS HIGHLY REMOTE. TWP APPROVED
REF C AS "PROVISIONALLY FINALIZED" IN SAME SENSE AS REF
A.

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10. INVESTMENT OF SURPLUSES (REF D): DRAFT PAPER
CHANGED FURTHER (AT SMALL COUNTRY AND ITALIAN INSIST-
ENCE) TO HIGHLIGHT THAT FINANCIAL ADJUSTMENT HAS NOT
PROCEEDED SMOOTHLY IN ALL CASES, AND TO NOTE THAT BURDEN
OF CURRENT ACCOUNT DEFICIT HAS SHIFTED OVER PAST YEAR
FROM LARGE OECD COUNTRIES TO SMALL OECD COUNTRIES AND
NON-OIL LDC'S. NONETHELESS, IT WAS AGREED THAT THERE
IS NO NEED AT PRESENT FOR ADDITIONAL MECHANISMS (SUCH
AS COOPERATIVE ARRANGEMENTS WITH OPEC) TO HANDLE SMALL-
COUNTRY FINANCING PROBLEMS.

11. U.S. COMMENTED (AND TWP AGREED) THAT PAPER SHOULD
NOT IMPLY THAT NEW COOPERATIVE FINANCIAL ARRANGEMENTS
OR REGULAR CONSULTATIONS WITH OPEC ON FINANCIAL MATTERS
WOULD BE DESIRABLE. FRENCH FELT THAT PAPER SHOULD
EMPHASIZE CONCEPT OF TRIANGULAR INVESTMENT AS AN AREA OF
COMMON PRODUCER/CONSUMER INTEREST. FRENCH PROPOSAL WAS
ADOPTED WITH U.S. QUALIFICATION THAT THIS DID NOT IMPLY
THAT ANY NEW MULTILATERAL INSTITUTIONS WOULD BE CREATED
FOR THIS PURPOSE.

12. FRG NOTED THAT REF D COMMENTARY SHOULD REFLECT
RESULT OF DISCUSSIONS IN COMMITTEE ON INTERNATIONAL
INVESTMENTS AND MULTINATIONAL ENTERPRISES (CIME) CON-
CERNING OECD COUNTRIES' TREATMENT OF OPEC INVESTMENTS
WITH RESPECT TO AVOIDING SPECIFIC INCENTIVES OR DIS-
INCENTIVES; EXCHANGE-RATE GUARANTEES BY GOVERNMENTS, AND
ENGAGING IN PRIOR CONSULTATIONS IN CASE OF DEPARTURE
FROM THESE PRINCIPLES. TWP AGREED SECRETARIAT WILL
REFLECT CONCLUSIONS FROM CIME DISCUSSIONS IN COMMENTARY.

REF D CONSIDERED "PROVISIONAL
X FINALIZED" IN SAME SENSE
AS REST A AND C. HOWEVER, (UNLIKE REF C) THERE IS NO
INTENTION TO TABLE REF D IN DIALOGUE.

13. BALANCE OF PAYMENTS AND FINANCING PROBLEMS OF
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SMALLER OECD COUNTRIES (REF E): ALTHOUGH CONCLUSIONS OF SEPTEMBER MEETING WERE NOT CHANGED, NUMBER OF COUNTRIES REVISED THEIR ESTIMATES OF THEIR PROSPECTIVE DEFICITS, SOME NOTING PROGRESS TOWARD BALANCE, OTHERS IMPLYING FURTHER DETERIORATIONS. SEVERAL EXPRESSED CONCERN AT MAGNITUDE OF DEBT ACCUMULATIONS AND WARNED OF NEED TO RESTRAIN THEIR ECONOMIES IF SITUATION NOT ALLEVIATED BY EXPANSION IN LARGER COUNTRIES. GENERAL TONE WAS OF G

ATEJMV NCERNVND MORE WORRY ABOUT FINXINGGG ALTHOUGH NO IMMEDIATE FINANCING PROBLEMS ACKNOWLEDGED. REF E HAS BEEN CIRCULATED TO NOVEMBER 18-19 EPC; SECRETARIAT WILL PASS ON TWP COMMENTS ORALLY TO EPC (UPDATED BALANCE-OF-PAYMENTS TABLES MIGHT ALSO BE CIRCULATED). FRG INTERJECTED THAT IF COUNTRY GROWTH PROJECTIONS AS RELEASED AT NOVEMBER 6-7 SHORT-TERM FORECASTERS MEETING (SEE REF F) PROVED TO BE MORE ACCURATE THAN THOSE OF SECRETARIAT, BALANCE OF PAYMENTS CONSTRAINT OF SMALLER COUNTRIES WOULD BE RELAXED. SECRETARIAT (FAY) NOTED THAT SECRETARIAT HAD NOT YET COMPLETED REVISED ESTIMATES AND THUS THAT DEGREE OF COUNTRY/SECRETARIAT AGREEMENT WAS INDETERMINABLE. MARRIS ADDED THAT COUNTRY FORECASTS IMPLIED HIGHER SMALL-COUNTRY IMPORTS AS WELL AS EXPORTS SO CURRENT ACCOUNT RESIDUAL WOULD UNDERGO LITTLE CHANGE.

14. TWP BACKSTOPPING ROLE IN DIALOGUE: VAN YPERSELE NOTED UNDERSTANDING IN LAST XCSS THAT TWP SHOULD SERVE FOURTH COMMISSION AND THAT TWP MANDATE SHOULD BE BROADLY INTERPRETED (RATHER THAN FORMALLY REWRITTEN) TO ALLOW IT TO FULFILL NEW FUNCTION. SPECIFICALLY, XCSS INTERESTED

NOTE BY OC/T: OECD P 30148 SEC 3/4 GARBLED TEXT PARAS 12 & 13, CORRECTION TO FOLLOW

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IN HAVING TWP STUDY NON-OIL LDC FINANCING PROBLEMS. VAN YPERSELE STATED THAT TERMS OF REFERENCE OF FOURTH COMMISSION, AND HENCE IMPLICATIONS FOR TWP WORK, SHOULD BE CLEARER AFTER DECEMBER 16-17 CIEC MINISTERIAL, AND SUGGESTED TWP MEET AT INFORMAL LUNCHEON ON DECEMBER 18 FOR FIRST ROUND OF DISCUSSIONS ON LDC BALANCE-OF-PAYMENTS PROBLEMS AND OTHER WORK RELATED TO FOURTH COMMISSION. TWP AGREED LUNCHEON FOR THIS PURPOSE ON DECEMBER 18 WOULD BE USEFUL.

15. IN BRIEF DISCUSSION, TWP DECIDED IT WAS PREMATURE FOR IT TO ADDRESS ANY ITEMS IT NOT NOW COVERING AMONG THOSE INCLUDED IN LISTS ADVANCED AT PREPCON II. U.S. NOTED THAT EARNINGS STABILIZATION AND FINANCING OF BUFFER STOCKS NOW BEING HANDLED IN COMMODITIES AND DEVELOPMENT CONTEXTS. THIS SEEMED ADEQUATE FOR TIME BEING, ALTHOUGH TWP MIGHT REVIEW ITS ROLE ON SUCH SUBJECTS LATER ONCE FUNCTIONS OF LIMITED OFFICIAL USE

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FOURTH COMMISSION MORE CLARIFIED.

16. JANUARY 20-21 "TENTATIVELY RESERVED" FOR NEXT FORMAL TWP MEETING. DISCUSSION WILL FOCUS ON LDC BALANCE-OF-PAYMENTS PROBLEMS, AND ON ABSORPTIVE CAPACITY ISSUE. IN ADDITION, THERE IS LIKELY TO BE FURTHER DISCUSSION OF TWP ROLE IN BACKSTOPPING FOURTH COMMISSION IN LIGHT OF CIEC MINISTERIAL RESULTS.

17. BASIC PAPER FOR LDC STUDY WILL BE RELEVANT SECZIJON BN IMF "WORLD ECONOMIC OUTLOOK" TO BE PUBLISHED IN MID-DECEMBER. IN THIS CONNECTION, VAN YPERSELE SUGGESTED

TWP CONSIDER INVITING IMF AND IBRD AS OBSERVERS TO TWP MEETINGS CONCERNED WITH LDC FINANCING PROBLEMS. THIS QUESTION WILL BE CONSIDERED AT EITHER DECEMBER OR JANUARY MEETING.

18. ACTION REQUESTED:

(A) TO SUPPORT POSITION TAKEN RE EFFECTS OF OIL PRICE INCREASE ON GROWTH, U.S. DEL PROMISED TO SUBMIT ITS OWN DETAILED ANALYSIS TO WP-2 AND TO TWP AS WELL. AS NOTED BY MARRIS, IF U.S. VIEWPOINT IS TO BE EFFECTIVELY PURSUED, U.S. SHOULD BE PREPARED TO PRESS QUESTION IN WP-2 IF OBJECTIVE IS TO SEEK TO HAVE IT READY FOR USE IN DIALOGUE IN EARLY SPRING.

(B) IN ACCORDANCE WITH TWP DISCUSSION ON TERMS OF TRADE, U.S. WILL NEED TO SUBMIT TO SECRETARIAT FURTHER DETAILS ON METHODOLOGY OF CONSTRUCTING U.S. EXPORT PRICE INDEX, SUGGESTIONS FOR EXPERTS' GROUP TERMS OF REFERENCE, AND NAME OF U.S. REPRESENTATIVE TO EXPERTS' GROUP.

(C) U.S. REP AT EITHER DECEMBER 18 OR JANUARY 20-21 TWP MEETING SHOULD HAVE POSITION ON QUESTION OF IMF/IBRD PRESENCE AS OBSERVER AT TWP MEETINGS CONCERNED WITH LDC FINANCES.
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